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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

GENERAL

1. Political.

At the time of our last report (CIA 3-48, 10 March) the trend in Europe and Asia was universally unfavorable. Since then the vigor of Western reaction has probably surprised and possibly alarmed the Kremlin. The rapid succession and cumulative effect of such developments as the President's message to Congress, the Brussels Pact, Western agreement regarding Germany, effective support of anti-Communist elements in the Italian electoral campaign, and emphatic Congressional action on foreign aid betoken an aroused and determined spirit of resistance which the Kremlin may well regard as dangerous not only to its immediate purposes but also to its ultimate security.

Subsequent and concurrent threatening gestures on the part of the USSR, while apparently in response to the foregoing developments, are probably not so in fact, but rather the implementation of plans previously adopted. For example, recent Soviet conduct in Germany is fundamentally the consequence

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of decisions taken months ago and even in its timing only incidentally related to recent events. The general purpose of simultaneous threats toward Scandinavia, in Germany, toward Greece, and toward Iran is evidently to develop and exploit the panicky apprehension of further Soviet aggression referred to in CIA 3-48.

Effective resistance to direct Soviet political aggression inevitably involves risk of a collision, the accidental consequence of which might be war. It is still improbable, however, that the USSR has any present intention of provoking war. Its most provocative conduct, that in Germany, is actually evidence that war is not intended. If early military aggression in Europe were planned, devious efforts to compel Western withdrawal from Berlin would be pointless. Such efforts presuppose a quasi-permanent partition of Germany at the existing western boundary of the Soviet Zone.

If, however, the Kremlin were to become convinced that there was definite prospect of stabilization and recovery in Western Europe and of actual rearmament of the United States on a formidable scale, it would have occasion to reconsider its

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current policy of aggression by means short of general war. The basic choices before it in that case would be: (a) to continue its existing policy and activities, which would prolong international tension in the face of diminishing returns and increasing risks; (b) to seek a general peace settlement on terms that would guarantee its existing holdings; or, (c) to resort to preventive war, taking advantage of its still preponderant military capabilities and relying upon the strength of the defensive position it might establish to guarantee its security against counterattack. The Kremlin would probably be predisposed to follow the first course until diminishing returns and increasing risks indicated that the time had come to adopt the second. It would be likely to resort to preventive war only if also convinced that war on Western initiative was in prospect and inevitable as soon as the rearmament of the United States and of Western Europe had been accomplished.

In any case, the existing Soviet margin of safety is so great that the Kremlin can afford to wait upon actual developments (as distinguished from verbal expressions of intention, however firm) before coming to a decision in so fateful a matter.

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A basic policy choice as between general settlement or preventive war is therefore unlikely during 1948. Preliminary consideration of those alternatives, however, is presumably already in progress as a result of the developments of the past month.

2. Economic.

In most of the world economic conditions showed moderate improvement during the first quarter of 1948. Further gains are probable, but will come only slowly in view of actual civil disorder in some areas and the prevailing apprehension of war in others. In the aggregate, however, when viewed over a period of several months, improvement in the economic situation is clearly evident.

For further discussion of this development see the Appendix (page 1).

PARTICULAR SITUATIONS IN EUROPE

3. The Brussels Pact.

The speed with which the representatives of the United Kingdom, France, and "Benelux" were able to agree upon a mutual defense pact was surprising even to them and a measure of the sense of common danger pervading Western Europe. The

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Pact is significant as the potential basis for a larger grouping which, with adequate US support, could serve to stem the westward expansion of Communism. It is not an organic union, the procedures envisaged being purely consultative. Even as a pledge of mutual assistance it can have little psychological or material effect except to the extent that it is supported by convincing assurances of US military reinforcement on an effective scale.

4. The United Kingdom.

Great Britain's gold and dollar position continues to deteriorate, but the Government does not presently contemplate further measures of retrenchment such as would impair the United Kingdom's industrial capabilities or its international political position. The Government's domestic propaganda is increasingly frank in revealing that Great Britain is dependent on US financial support and that the European Recovery Program promises only economic survival, not social improvement. It is significant that, despite the stringent economic situation, Parliamentary criticism of the defense budget omitted appreciable reference to costs and was directed primarily against the Government's failure to develop an overall strategic plan.

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5. France.

The adjournment of the National Assembly until 20 April has granted the Schuman Government a month's respite from parliamentary crises. Meanwhile the economic situation has begun to show definite improvement, with consequent improvement in the Government's political prospects. A sign of the trend is De Gaulle's newly developed disposition to seek a rapprochement with the moderate parties. The position of the Government is apparently stronger than at any time since its inception.

6. Scandinavia.

In reaction to apparent Soviet designs on Finland and under a blanket Soviet propaganda charge of military connivance with the Western Powers, the political solidarity of Scandinavia is tending to disintegrate. While the Swedish Government clings to an attitude of neutrality which has served that country well for 133 years, Norway and now even Denmark tend cautiously, but increasingly, toward a realignment with the Atlantic community. A positive development of this tendency, however, is dependent on assurances of effective military support.

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7. Germany.

Recent Soviet initiatives in Germany--disruption of the Allied Control Council and the Berlin Kommandatura, interference with traffic between the Western Zones and the Western Sectors of Berlin--are logical consequences of Soviet realization, at least since the Moscow session of the CFM, that Soviet penetration of western Germany could not be accomplished through the mechanism of quadripartite control. Since then the USSR, while decrying the partition of Germany and maneuvering to put the onus for that situation on the Western Powers, has concentrated on the development of the Soviet Zone as a political entity for the time being and as a base for the eventual unification of Germany from the East. Further development along this line requires the expulsion of the Western Powers from Berlin. Such an event, occurring at this time, would also have profound psychological effects throughout Europe, particularly so in relation to the Italian election. The obvious first step toward the end in view is to do away with the quadripartite agencies which constitute the reason for the presence of the Western Powers in Berlin, but on the ground that they have

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already been rendered meaningless by the acts of the Western Powers themselves with respect to the Western Zones. Such interference with traffic as has occurred is presumably but the beginning of a series of restrictions and deprivations intended to render it actually impracticable to maintain Western occupation of sectors of Berlin.

While the maintenance of an isolated position in Berlin will be manifestly difficult and even dangerous, a Western withdrawal under Soviet compulsion would constitute a political defeat of the first magnitude. Maintenance of the position is of value for the same reasons that cause the USSR to seek to eliminate it: the psychological and practical effects of the presence of an island of Western security in the heart of the Soviet Zone, the implicit assurance of an eventual unification of Germany from the West. Its abandonment, constituting the final concession of eastern Germany to Communism and implying that unification could thereafter be accomplished only from the East, would have a profound effect throughout Germany. The direct surrender of the three principal Western Powers to Soviet coercion would have a profound effect throughout the world.

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The USSR is unlikely to offer any substantial concessions regarding an Austrian treaty. The current negotiations are therefore likely to break down. On their termination the USSR may act to compel a Western withdrawal from Vienna as from Berlin, the event depending on the degree of Soviet success with respect to Berlin. Concurrently the USSR would attempt to compel the Austrian Government to accept its terms.

Under the pressure of events the principal Austrian parties (the People's Party and the Socialists) have compromised their differences and reaffirmed their coalition. They will offer a united opposition to Communism and the USSR. The Austrian Communists, numerically insignificant, have however been effectively organizing action squads on the Czechoslovak model. By such means they are possibly capable of seizing control in the Soviet Zone.

9. Italy.

The political trend in Italy has been reversed by effective Western support of the anti-Communist parties.

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In the ten days remaining before the election the USSR could attempt to influence the outcome by (a) concession of Trieste, on condition of a "democratic" victory; (b) similarly conditional offers to reduce reparations and to return its share of the Italian fleet; (c) revival of the colonial issue; or (d) a timely offer of wheat. The most effective appeal remaining available to the Communists, however, is their representation that a vote for the Popular Democratic Front is a vote for peace. This line, played straight and also as an implicit threat of Communist resort to violence in the event of defeat, touches a very responsive chord in the universal apprehension lest Italy again become a battleground. Every war scare propagated by the USSR, however remote (e.g., Soviet propaganda against the Scandinavian countries), supports this theme. A first class war scare regarding the situation at Berlin would be most effective.

On present showing, however, it is likely that the Communist-dominated Popular Democratic Front and the Christian Democrats will run a dead heat with about 35 percent of the vote apiece. In this case, De Gasperi would be able to form a majority

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coalition representing up to 65 percent of the electorate. All parties outside of the Popular Democratic Front would support the Christian Democrats against Communism; the Communists could combine with none not already included in the Front. It is even possible, though not probable, that the Nenni Socialists, once the returns were in, could be induced to desert the Communists. Their loyalty, however, would be suspect; they might prove to be an avenue of Communist infiltration.

The Communists, foreseeing defeat, may seek to invalidate the election by widespread disorder or even insurrection on election day. (They have been predicting a neo-Fascist coup on that date.) Already there is evidence of increasing disorder in violation of the inter-party truce. The Government, however, is apparently well prepared to cope with such an emergency.

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THE NEAR AND MIDDLE EAST

10. GREECE.

The prospect in Greece is not encouraging, despite improvement in the political situation in Athens and a creditable Greek Army victory over the guerrillas in the Pieria area. Economic recovery is hindered by fear of a general war in which Greece would be overrun by Soviet forces. Fear of ultimate Communist domination renders many Greeks reluctant to commit themselves in the present struggle. Moreover, the increased capabilities of the Greek Army will probably be offset by increased Satellite aid to Markos, advanced preparations for which are apparent in southern Yugoslavia and Albania. In the circumstances it is improbable that the Greek Army will be able to win a decisive victory over the guerrillas this summer.

11. PALESTINE.

Large-scale civil war in Palestine is apparently inevitable in view of the unwillingness of either Arabs or Jews to accept a truce without prejudice to the ultimate political solution and of the improbability of effective action by the United Nations.

The initially favorable Arab reaction to the US proposal for trusteeship has given way to suspicion that it is merely a device

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for the surreptitious imposition of partition. The Zionists reject any plan which does not guarantee partition; they propose to establish a Jewish state on 16 May and to attempt to defend it, regardless of the circumstances and the consequences. Meanwhile members of the United Nations are increasingly reluctant to adopt any plan which does not include a categorical US commitment to assist in its enforcement. There is an apparent possibility that, in default of positive UN action, anarchy may ensue in Palestine on 15 May, with dire consequences throughout the Near East.

The only formula which could possibly avoid the determined resistance of one or both communities in Palestine would be an unequivocal revocation of the partition plan and the concurrent establishment of a clearly disinterested trusteeship well able to guarantee the security of both communities. The Arab majority in Palestine, and the Arab world outside as well, would probably accept this as an interim measure. Whatever may be said by Zionist spokesmen, it is probable that a majority of the Jewish community in Palestine would also prefer this solution to the present appalling prospect. Resistance need be expected only of extremists of the Irgun and Stern Gang type, who were not satisfied by partition either, for that matter.

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12. IRAN.

The USSR has been subjecting the Iranian Government to intense pressure, accusing it of oppressing the masses and of conniving in the establishment of US military control of the country. Ominously, the Soviet Government has likened the presence of US missions to the presence of Germans in 1941 and has suggested that the Soviet-Iranian Treaty of 1921 is applicable to the situation. (This Treaty authorizes Soviet military intervention in Iran to prevent the use of that country as a base of operations against the USSR. It was invoked in 1941 on the ground that the presence of numerous Germans in Iran constituted a threat to Soviet security.) Iranian resistance to this pressure will be in direct proportion to Iranian confidence in US support. The Government may refer the matter to the UN Security Council, which is still seized of the Iranian case.

13. INDIA - PAKISTAN.

Relations between the two Dominions have generally improved, with responsible leaders on both sides increasingly conciliatory. The Kashmir dispute, although still unsettled, no longer involves imminent danger of open war. India has, at least temporarily, the military advantage in Kashmir itself. Pakistan is now apparently aware of India's overall military superiority.

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THE FAR EAST

14. GENERAL.

A central mechanism to coordinate the policies and activities of the Far Eastern Communist Parties was established at a conference held at Harbin in January. Although the Far Eastern Parties presumably retain a considerable degree of local autonomy in comparison with their European comrades, the very existence of such a coordinating mechanism implies increased Kremlin direction and control.

While the Far Eastern Communist Parties are likely to attach primary importance to the pursuit of local objectives, there is evidence that, in the global view of the Kremlin, their activities are essentially diversionary in relation to the decisive struggle for control of Europe. It is also indicated, however, that the Kremlin has ordered an intensification of diversionary activity in the Far East as the struggle for Europe approaches its climax.

15. CHINA.

Continuing deterioration in the military, economic, and political position of the National Government is reflected in the spreading loss of morale in Nationalist China.

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During a lull in military operations chief interest centers in political developments. The newly established National Assembly will elect Chiang Kai-shek to the presidency as a matter of course, but there is a spirited contest for the vice-presidency. Chiang's support will presumably determine the outcome, and he will probably make a choice from old and trusted conservative elements in the Kuomintang. If General Li Tsung-jen were to be elected, however, it would constitute a victory for the younger and more progressive elements in the Kuomintang and might initiate a chain of developments leading toward diminution of Chiang's power and ultimately to his departure from political life.

Renewal of aggressive Communist military operations during the coming weeks may be complemented by a Soviet diplomatic offensive designed to bring about a "compromise" settlement of the civil war on terms favorable to Communist and Soviet purposes.

16. KOREA.

United Nations refusal to postpone the South Korean election from 9 to 24 May is advantageous to well prepared arch-Rightist Rhee Syngman in that it restricts the time available to Moderates and moderate Rightists to organize and contest the election.

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The USSR, meanwhile, has arranged for a conference of North and South Korean political leaders at Pyongyang on 14 April as a device to win South Korean acceptance of the "Korean People's Republic" as the basis for a unified and "democratic" Korean state regardless of the South Korean election. With that election in view, South Korean Moderate and independent Rightist leaders have felt obliged to attend in order to escape the stigma of separatism which attaches to Rhee Syngman. South Korean representation at the conference will be weighted on the Left, however, so as to insure an apparent South Korean endorsement of the Soviet program. The conference promises to be a distinct propaganda success. Moreover, it may well result in drawing into the Soviet camp all Korean political elements opposed to Rhee if, as is probable, he should win an undeserved victory in the South Korean election.

The USSR is also manufacturing a Korean war scare based on the supposed aggressive intentions of US "imperialists" and South Korean "reactionaries." This preparatory effort would seem to presage "defensive" action by the "Korean People's Army" to overthrow an unrepresentative Rhee regime on the withdrawal of US forces from South Korea.

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17. JAPAN.

High Japanese officials have recently shown an increasing spirit of independence apparently attributable to their appreciation of a US need for Japan as a strong point in East Asia in view of the state of US-Soviet relations and of the deteriorating prospects in China and Korea. It is to be expected that the Japanese will exert their bargaining power to the utmost in relation to US aid in the rehabilitation of Japan.

18. INDOCHINA.

Pessimism is increasing among French officials as a result of the apparent impossibility of achieving a military decision and the continuing stalemate in negotiations with Bao Dai. The French may come to welcome any face-saving solution, including mediation by the United Nations or the United States.

19. BURMA.

Newly independent Burma is beset by three critical problems, any one of which could result in open civil conflict. They are:

- (a) dissension within the ruling party, the Anti-Fascist League;
- (b) vigorous Communist activity in the form of strikes and of the establishment of insubordinate Communist administrations in central Burma; (c) continued agitation for a separate state on the part of a large portion of the Karen ethnic minority.

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LATIN AMERICA.

20. THE BOGOTA CONFERENCE.

The fundamental problem at the Bogota Conference is that of presenting the projected strengthening of the Pan American system in such terms as to win the support of the larger Latin countries. The United States on one hand, and the smaller states on the other, have much to gain and little to lose by such a development. Argentina, Brazil, and Mexico, however, and perhaps also Chile and Peru, are fearful of a possible curtailment of their political freedom of action. Some concessions may have to be made to these countries to secure their adherence.

A related matter of considerable delicacy is that of persuading the Latin American nations to accept the priority of Western Europe in the distribution of US economic assistance.

The US desire to forestall prejudicial action in relation to territorial disputes between the United Kingdom and Argentina, Chile, and Guatemala respectively is likely to receive sufficient support to prevent the matter from becoming a serious problem.

21. THE CARIBBEAN.

The civil conflict in Costa Rica is significant chiefly because of its bearing on emergent balance of power alignments in the Caribbean.

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Nicaragua and Guatemala are disposed to intervene in support of the opposing sides. Honduras, El Salvador, and the Dominican Republic are loosely aligned with Nicaragua; Cuba, Haiti, and Venezuela with Guatemala. The issue has ceased to be one of Costa Rican internal politics and has become a matter of the future alignment of Costa Rica in this situation. The existence of such antagonistic intraregional alignments is prejudicial to Hemispheric solidarity.

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